Jervis, John Bloomfield

A series of letters

Rome, N.Y.

1868

97-84251-8
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Jervis, John B[loomfield] 1795-1885.

A series of letters, written for the Roman citizen, on the currency and public debt of the United States. By John B. Jervis ... Rome, N. Y., Sandford & Carr, printers, 1868.

32 p. $22\frac{1}{2}^{cm}$.

No. 1 of vol. of pamphlets.

1. Currency question—U. S. 2. Finance—U. S.

7-15381

Library of Congress

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 11-19-97 INITIALS: AP

TRACKING # : 29540

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LETTERS ON PUBLIC AFFAIRS.

CURRENCY OR MONEY.

No. 1.

In order to discuss this question it is necessary to have a distinct idea as to what is currency. Money is an article of commerce, in which all obligations of contract may be liquidated. Its use is to supercede the necessity of the cumbrous barter system in the numerous exchanges of property that are required in the affairs of trade. It has been the practice of commercial nations to adopt the precious metals as the standard of value. The reason for this is obviously to take the most concentrated value, as requiring the least weight and bulk. Gold is evidently the best adapted to this condition, and silver the next; copper being used only for small values. Gold and silver is all we need to consider in the general question. These have such intrinsic value in the arts, that all commercial nations adopt them as the standard of value in mercantile transactions.

In order to provide for the convenience of trade, Governments issue pieces of gold and silver on which the value is stamped. These are not always pure metal, the Government adding in alloy, professedly to compensate for the expenses of coining. In this condition it is denominated coin, and is, by legal enactment, a tender for all liabilities within the nation that authorizes the coinage. But in all transactions with other nations, this coined money is received at its intrinsic value as gold and silver. It is therefore manifest that our coin will be valued in the exchanges of the world according to its purity or its intrinsic value, and the nearer our coin approaches this standard the nearer will it come to that of the world. Our standard is not much below this, but it is below, and requires the merchant to compute this difference

in the purchase or sale of commodities in foreign trade. No nation allows another to fix their standard of even coin currency, but the article, in foreign trade, must be dealt in as one of commerce, and depending on its intrinsic, not its coin value. To fix the value of coin that shall be a legal tender, is a prerogative of Government, and in ours is given exclusively to the Federal Government.

It has sometimes been the policy of Governments to so adulterate their coin that it would not leave their own country. This is simply an absurdity, as nothing is gained, either in foreign or domestic trade. The coin will soon come to be appreciated at its real and not at its coined value. Adulteration has the material disadvantage of being less portable, and more burdensome for transmission, thus impairing the benefit of high intrinsic value. A true civilization would use no more alloy in coin than might be expedient to improve its wear. In large transactions in foreign commerce, gold and silver is often remitted in bars of pure metal as preferable to coin. These remarks show that gold and silver have intrinsic value, and are not merely dependent on the Government stamp. No doubt it is in the power of the Government to materially, or even greatly, to debase its coin and make it a legal tender for all debts; but no enlightened man would approve such a course. It would actually increase the burdens of trade by diminishing the conversion of the best articles that nature has provided so eminently for the exchanges of trade.

The large increase in the production of gold that has been made within the last thirty years, has somewhat decreased its relative value, or the same weight, of course, has not the same value. I do not know that this has led any nation to change their coin standard of weight; but it has affected the relative values of coin and other commodities. This change has not materially affected current transactions, but in those obligations of long standing it works for the relief of the debtor, and against the creditor. The process thus far has been slow, and called forth but little remark.

It is asserted that gold coin fluctuates in the ordinary transactions of commerce, and therefore is not a uniform standard of value! There can be no doubt that gold, as an article of commerce has fluctuations in value; and this at times will cause it to flow from one country to another, just as any other commodity. It cannot, however, be supposed that gold will be sent from one country to

another without an equivalent; and these fluctuations rarely disturb the value of coin for internal trade. But if it be contended, these fluctuations impair its value as coin; then it is incumbent on those who maintain this, that they point out a better and less fluctuating standard of value. If gold and silver be abandoned we must take the barter system, which no one could successfully maintain in this age. So far as values are now known there is no equivalent for gold and silver as a standard of value, and a legal tender for debt.

CURRENCY OR MONEY.

No. 2.

To a very large extent, paper has been used as currency, especially in this country. This kind of currency is a representative of money. It is based on credit. In itself it has no intrinsic value. For the most part it has been issued by banks, on the authority of law. The bank note is a promise on the part of the bank to redeem in coin on demand. The note is not a legal tender, and can only be received at the option of the receiver. The value of the note rests on the credit of the bank that issued it. If a bank fails to redeem its notes on demand it loses its credit, and its notes having no intrinsic value, become worthless. For the most part in this country, banks of issue have been chartered by the State Legislatures. Some banks have failed to redeem their notes, and this has led to expedients for the protection of the bill holder. The State of New York adopted a system requiring all banks of issue to obtain their currency from the State banking department, depositing with the department bonds to secure the circulation thus issued. If a bank failed to redeem its notes, they were presented to the bank department, and the Commissioner sold so much of the securities as were necessary to redeem the notes. By this system the public suffered from the failure of the bank only a small interest. This system depended on the judgment and integrity of the bank eommissioner in taking security. In other States this duty was not so well done, and heavy losses accrued to the billholders from the inadequate character of the securities pledged. I am not aware that any State

has made bank notes a legal tender; but they so largely perform the function of money that it has been regarded as a prerogative of government to allow these issues; individuals or corporations not expressly authorized, are not allowed to issue bills for circulation in the form of paper currency. If then this paper currency is not money, and cannot be offered as a tender, why allow it all? The practice has arisen from two causes: First—the greater convenience of this representation in transport over that of gold coin. This is very obvious in all large transactions, and to persons on long journeys. If all business was transacted in coin, it would cause considerable loss in wear, and in the time required to handle and count. Secondly, the bank notes are a saving in capital. They constitute the greater part of the circulating money, and it is only occasionally the coin is needed, as a tender, or to pay foreign balances. With a bank currency in good credit, the bank will be safe that holds 25 per cent. of its circulation in coin, and the balance, 75 per cent., will be available for discounting commercial bills. Such bills are based on property preparing, or on the way to market, and run from 30 to 90 days. If at any time the bank finds its reserve funds are tending down, they have only to suspend discounts until, by payment of matured bills, they replenish their means. The danger to banks generally arises from what is called an accomodation business, which often gets into the condition of a long loan, and sometimes proves a total loss. It is obvious that, with a discreet use of their funds, the banks may use as capital about 75 per cent. of their circulation. For this benefit they must pay for the manufacture of their bills, and such other expenses as are incidental to the management of business. In order to an intelligent business of banking on currency, it is necessary for the banker to know about the average circulation the community will hold. If he goes beyond this, it will come home for redemption.

There is another class of paper which enters largely into commercial transactions, though not counted as money, namely:—checks, or drafts. These are drawn on a deposit, and are based on the credit of the drawer. Here it is at the option of the receiver to accept the check for the amount due him, and no government security is provided or necessary. Sometimes a draft is bought for the convenience of remittance to a money center, where the general balances of trade are settled. A draft on a bank in Rome would produce its face in current money, and a draft on a bank in New York would produce the same current money in New York. But it will be readily seen that by the latter the money is transported at much less expense than coin could be transported, and, as the money happens to be wanted in New York, this method of business is a great convenience and economy. In a commercial city, like New York, the settlements by drafts or checks is far greater than all other payments made in current money. These checks and drafts all depend on credit, and, taking the whole State, I suppose a much larger amount of bills and balances are paid by checks than by current money. I have thus noticed this branch of credits to call attention to the fact of the very large amount of credit transactions (besides that of paper currency,) that enter the every day affairs of commerce.

CURRENCY OR MONEY.

No. 3.

In my last number I noticed in general the system of paper currency as established by State authority. These systems varied in form or substance, and the credit of the circulation issued was far from being uniform. That by the State of New York has been most approved. A want was felt for a currency of more general credit—that would serve the purposes of money in New York or Iowa. Without further remark, I may state that this want led the Federal Government to establish what we now have as National banks. In this, the New York state bank system, in former use, has been taken as the main feature. The plan as to security for circulation, is a deposit of Government bonds. The currency is prepared by the Gevernment, (the bank paying the expense of preparing the same) and for a deposit of $100,000 in Government bonds, $90,000 in circulation is delivered to the bank. In other words, the bank receives in currency 90 per cent. of the amount of the market value of the bonds deposited. It is therefore obvious that, so long as the bonds will sell at 90 per cent. of their par value, the security is sufficient for the circulation.—This circulation the banks use for the purpose of discounts, to the

extent of 80 to 85 per cent.; the law requiring that 15 to 20 per cent. must be kept in the bank, or what is the same thing, they must keep on hand this amount of funds to redeem any portion of their circulation that may be demanded at their counters, or redeeming agencies. As the law now stands the reserve funds may be coin or government currency, mostly the latter, and this will probably continue so long as this currency is of less value than coin. When the Government retires its own currency, the banks must redeem in coin, and this is a condition that should be reached at the earliest day practicable. I intend hereafter to discuss this point, and, for the present, confine myself to the consideration of the National bank system, as it will naturally be when specie payments are resumed.

Before the late war, the Government made no issue of money, except in coined gold and silver. But the emergencies of the war induced the Government to issue paper money, and, finally, to establish the National bank system. In consequence of the irregular value of State bank currency, the Government currency was very favorably received. There had been for a long time a desire for a more uniform currency than that maintained by State banks in general, and, being made a tender, the Government currency maintains a more uniform value. But, though, as I shall endeavor to show hereafter, this currency cannot be accepted as a proper currency, I now consider the National bank currency as the most suitable to meet the general wants of a currency for the country.

The mode of securing the National bank currency has been considered in a previous number, and the fact stated, that this currency is to be convertable into coin or Government notes on demand. The bank is required to redeem at its counter, and, also, at some money center. There is a certain option of the banks as to the place where they may make their redemption. If their notes are not paid on demand they may be protested, and sent to the bank department for redemption, and the securities sold for this purpose. It is therefore evident that, so long as the Government bonds are worth 90 per cent., the bank circulation will be fully paid. This security has the full pledge of the Government bonds to meet default on the part of any National bank. It does not permit banks to issue circulation without basis of capital, for, in the first place, the bank must have the funds to purchase the

bonds to be deposited. The opinion has been entertained that, starting with $100,000 in bonds, a bank may take its $90,000 in circulation and buy more bonds, and so go on increasing their circulation without increasing their capital. This might do if they were never required to redeem their notes. But even legal tender notes cannot be had for redemption of bank currency without paying for them. In this matter I look to the time when Government currency will be withdrawn from circulation, and the banks will have no option, but must redeem in coin.

The public should understand well what security they have for the circulation of paper currency. If the Government circulate a paper currency, as they do at present, it is based on the credit of the Government, and has no other resource for the bill-holder. It is true the Government make their notes a tender for debts, which the banks cannot do. In the case of the bank currency the bill holder has the full benefit of the Government credit in the bonds deposited as security. In addition to this he has the credit of the bank. The bank is interested in maintaining the credit of its own circulation, for the obvious reason, that any failure in this closes their banking operations; and, moreover, the loss must in any case fall upon the bank. The losses heretofore by the failure of banks to redeem their notes has arisen from want of capital in the beginning, or an indiscreet use of their funds, by which they lost their capital. In the system of free banking in the State of New York, the bill-holder rarely if ever suffered any further loss than the interest for a short time, until securities could be realized. No doubt some banks may be established with a view of supplying money for certain objects not consistent with sound banking. But the quarterly reports will soon reveal the process, and convince them that no profit can be made in this way. It appears clear that, so long as the Government bonds have good credit, the bills of the National banks are safe, and they have the further security of the credit of the banks. So far as I can discover, there is no better method of securing a paper currency than that established by the National bank system, provided the bank department of the Government carry it out with fidelity. Official integrity is necessary in any system of currency, and to secure this every practicable check should be established.

The National banks are required to receive the currency of other National banks in payment of debts due them. This may, per-

haps, be justifiable during suspension of coin payments; but the principle is wrong, and could not be tolerated if the banks were required to pay the coin. It gives an improper consequence to paper currency. It has been contended that this was necessary to give uniformity to the currency; but no currency can be uniform that has not in itself intrinsic value. We must not lose sight of the fact, that paper currency is only a representation of value, based on the credit of some party who has promised to pay.—Suppose the note of a bank in Nebraska, payable at its counter and at a redeeming agency in Chicago, is presented at a New York bank for the payment of debts, is it right, or in any sense proper, that the New York bank should be at the expense of sending that note to Chicago for redemption? If the bank in Nebraska desires that its notes should be at par in New York, they should make their redeeming agency in New York. This would not only give their notes credit in New York, but in all sections of the country where the trade tended to that city.

The question of paper currency requires that we keep in view reasonable facilities for its conversion into coin. If the place of redemption is a thousand miles from the receiver of the notes, in order to convert it he must be at the expense of transmission.—Who should pay this expense? Certainly not the receiver. It should be paid by the holder who has taken it under this disadvantage. The result will be that the receiver must submit to this cost of transmission, or he must have a discount that will meet the expense. The currency in this case will be below par so much as may meet the cost of transport to the place of redemption.—Clearly, there is no right or propriety in requiring a bank in Boston to meet the expense of transmitting currency redeemable in Missouri or any other distant point. It is, therefore, obvious that, under a system of coin payments, or a currency that is convertable into coin on demand, the issues that reach points distant from the place of redemption must be at so much discount as will pay the expense of transmission. This, of course, will not make a uniform currency. Nor is it practicable to make paper currency uniform, unless it be made a legal tender for debts, and this is not admissable if we expect to have money of intrinsic value. The free banking system of New York, while it substantially secured the bill holder, was not maintained at par. There was a discount of 1-4 to 1-2 per cent. to pay for transmission, and this is inevitable in any currency that is convertable. Nor is this a serious evil. The present facilities for transmission would require but a small discount to meet the expense, on the circulation of any bank in good credit.

The currency that is redeemable at the most important money center will have the best credit, and its circulation will be most easily maintained. It is, therefore, important that the comptroller of the currency, in preparing the currency for any bank, should see that the place of issue, and also of redemption, should be in prominent characters on the face of the bills, so that the receiver may at a glance see where he may obtain the coin if he wants it. At this time there is much less necessity for using currency in remittance to distant points than formerly, as this is now mostly done by bills of exchange. The traveler will sometimes find it necessary to submit to some discount on his currency. But if he is prudent and provides himself with currency that is redeemable at the money center of the district through which he travels, this will be hardly an inconvenience. At all points of reasonable proximity to the place of redemption, or on the line of general traffic towards the place of redemption, the currency will have easy circulation, and serve, to a large extent, the general wants of money.

Paper currency, as before noticed, is not in itself money; it is merely the representative of money. It has no intrinsic value—but a mere credit value as a representative, and its credit depends on the promptness of its conversion into coin. So long as its credit is untarnished it serves very largely the purpose of real money. All credit is liable to abuse, but I see no better way of establishing a national currency than by the system of national banks, subject to such modifications as experience may indicate. The banks of issue should be free to all parties that comply with the conditions of the law. There is no reason why one, more than another, should have the right to issue circulation. If banking is free, there will be so much circulation issued as the wants of the country require in legitimate banking, and, if the circulation go beyond this, it will inevitably return to the bank of issue, or to the government for redemption.

The government does all that should be required of it in preparing the notes of circulation, and receiving the securities, and

redeeming bank notes that may be protested for non-payment.—The government also receives the bank notes for all dues, except import duties; and they are safe in doing this as they have the bonds pledged for security, and this increases the value of bank currency. While approving the system, it must be admitted that entire success can only be assured by the vigilance, good sense and integrity of the bank department of the government. We must trust some power, and this is, perhaps, as safe as we can authorize.

CURRENCY OR MONEY.

No. 4.

In my last number I presented the general conditions of security for national bank currency. I now propose to consider the terms between the government and banks, on which the circulation of bank currency is issued.

It has been stated on many occasions that the issue is a great boon, or benefit to the banks, with no adequate benefit to the public. If this privilege was open and free to all who desired it, no doubt it would reduce the benefit to a minimum. I suppose this will, ultimately, be the rule. When the issue of paper currency is free to all that comply with the conditions of the banking law, the amount of issue will depend on its value to the banks that issue. There are, doubtless, certain benefits that accrue to the banks of issue, but the government may exact terms that will so nearly absorb the benefits as to leave too small a margin to make it an inducement. The main and indispensable thing for the government to do is to make the paper issue safe to the holder, or, in other words, make it promptly convertible into coin. As matters now stand, the conversion may be in government currency, which is simply one paper promise to redeem another paper promise.—But, we suppose, coin must ultimately be the only money for redemption, and on this basis the present discussion is founded.

It has been shown that in order to obtain national bank currency, the bank must make a deposit of government bonds, for which they receive from the Comptroller 90 per cent. of bank notes, the bank paying for the manufacture of the notes. In the first place, the bank receives interest on the bonds deposited, which may be at five or six per cent., not less than five per cent. There is actually no privilege in this, as all are free to make such investment. The government merely hold these bonds as security for the circulation; the bank must provide for its redemption in its current business. The bank uses the circulation as money in discounting commercial bills. An important question for the bank to determine is, how much of this currency can be kept in circulation? Of the 90 per cent. the bank receives, a reserve of fifteen to twenty per cent. must be kept on hand to meet any demand for redemption. For convenience take the average of twenty per cent. Eor a circulation of $90,000, this would leave available $72,000 that may be used in discounting bills. If this could be used at all times we should have a definite basis of the profit of circulation. But the demand for discount will not at all times equal the ability to discount. This will fluctuate more especially in agricultural districts, where the moving of products will, at times, make an active demand for circulation, and at other times the circulation will be comparatively small. The average of this will be the amount of benefit the bank will receive on its circulation. It is, therefore, obvious,the bank must carefully estimate this average in order to know what they can afford to pay for the circulation. As I am no banker, or owner of bank stock, I do not know what this average is. No doubt it will be affected by the number of banks, and the amount of their circulation in any particular districts, and, if banking was free, this would necessarily be reduced to the minimum of benefit. If we estimate this, that is, to determine what proportion of the circulation the banks may keep out, and have represented by discounted bills, on which they receive interest, I think it will not be far wrong to assume that, out of the $72,000 they receive interest on an average of $60,000. I do not pretend to know whether or not this is a fair estimate, but think it is not far wrong. It may be said the bank may provide other means for its reserve, and so put out its entire circulation. This will not affect the question, as in such case the bank must provide so much more capital.

On the basis of the estimate assumed the amount for circulation will stand:—

Interest on $100,000 of Government Bonds, at five per cent.		$5,000 00
Interest on discounts of currency, $60,000, at seven per cent.,		4,200 00
		$9,200 00
The bank pays as follows:		
On its average amount of circulation, 1 per cent.,	$600 00	
On its average deposit, estimated $50,000 at 1-2 per cent.,	250 00	
On its capital stock, beyond that invested in Government bonds, (estimated $50,000,) at 1-2 per cent.,	250 00	
Total paid to Government,	$1,100 00	
Expenses and losses in banking, and municipal taxes, estimated on its $60,000 of circulation, at 2 per cent.,	1,200 00	
		$2,300 00
		$6,900 00

So far as the preceding depends on estimates, it will be more or less inacurate, but, I think, as an average, they will not materially vary from the actual facts of banking. It is, I think, evident, that banks will not be able to make over 7, and, at most, 7 1-2 per cent. on capital invested in banks of circulation, under the National banking act, after coin payments are established. What they may make at this time is no criterion, for redemption is of small importance, and, probably, there are banks now existing that scarcely know what redemption of their circulation means.

In view of this fact, (as I understand it,) the banks of discount and deposit that do not issue circulating notes, are not taxed for their deposits, it does not appear that the banking law is more liberal than is necessary to induce banks to issue circulation. Experienced bankers have said to me, that their circulation cost them as much as it was worth, and this statement is confirmed by the examination I have presented above. If I am in error, bankers or any intelligent men can easily investigate for themselves. If they keep in view the principle that I view the subject under a condition of coin payments, with a compliance with the terms of the bank act, I think they will find the circulation cannot be supplied on more favorable terms to the public.

We have now a circulation of about 650,000,000 of dollars, and I suppose a circulation of 500,000,000 is as much as would be issued if the government currency was withdrawn, and banking made free. That is, 500,000,000 is as much as the banks would find it their interest to take from the government. On this amount the government, on the basis of tax above presented, would receive $5,550,000 per year.

As I do not know of any amendments to the banking act since March, 1865, my statements are in reference to the legislation up to that date.

In my next I propose to examine the government currency.

CURRENCY OR MONEY.

No. 5.

As proposed in my last number, I now consider the question of government currency, or what are termed legal tenders.

In the war of the Revolution there was issued a paper currency, denominated continental money. Since that time, no paper currency, except treasury notes, has been issued by our government until the late war. The financial emergency, caused by a great struggle to maintain the existence of the government against a formidable rebellion, induced the issue of this government currency. The measure was generally regarded a temporary expedient to carry the nation through the struggle. The notes were made convertible into interest bearing bonds, and it was supposed this would be done very soon after the rebellion was successfully put down. In anticipation of this result, the national bank circulation was authorized to the extent of a total circulation of three hundred millions of dollars. The restriction as to amount of circulation was, no doubt, based on the opinion that this would be as large a paper circulation as compatible with the legitimate wants of the country. Soon after the close of actual hostilities, a law

was passed authorizing the Secretary of the Treasury to withdraw from circulation the government currency at the rate of four millions per month. This was thought, by many, as too slow a process of retirement, requiring about eight (8) years to complete it. It was, however, pretty generally assented to, as a steady return to a normal standard of currency. By the notice of the act, every one was admonished to prepare for coin payments. The banks would clearly see that, as the legal tenders are retired from circulation, they must provide coin for the redemption of their notes. The legal tenders would steadily advance towards the coin standard, and probably, when half were retired, the difference between government bonds and coin would be very small. The process appeared a gradual and sure one to bring the country from a war inflation to a normal condition of currency. During the last winter Congress repealed this law, and we are now left without any progress in measures to deliver us from the evils of an inconvertible currency. It seemed to have been about as much as Congress could do to resist a further issue, which would have enhanced the evils we were then suffering. The main plea for this unfortunate legislation was, that the country was not ready for so much contraction of currency. When it is considered that the policy previously established was very moderate, it is hard to conceive when we shall be in a better condition to bear it. The country, under the condition of a legalized and depreciated currency, will never prepare for a return to the normal standard; it must be done by authority, and instead of voluntarily coming to a better condition the gulf will grow wider and deeper. Can any one doubt that an irredeemable currency promotes speculation and extravagance, and tends to impair industry and frugality? This inflation in time of peace, and three years after the emergency that called it into being had subsided, is extremely damaging to the principles of our free government. If we desire to be free we must cultivate sound virtue—as a love of right and justice, and industry and frugality.

It is one of the singular results of the influence of a depreciated currency, that it was able to defeat an act to legalize coin contracts, the only method, so far as I can judge, by which coin, through individual agency, could be made to supplant the legalized paper currency. We are, therefore, left without the aid of legal authority, or even the laws of trade to bring us to a standard.

To maintain the inflated and inconvertible condition of our currency, several reasons have been advanced, which I propose to consider.

1st. That the legal tenders are the best and most satisfactory currency we can have.

2d. That the government should have the benefit of the circulation, as so far a means of reducing the interest on the public debt.

3d. That there is no more circulation than is required for the business convenience of the country.

In regard to the first position, namely :—That legal tenders are the best currency, I observe :—

There is no doubt the favorable opinion of the legal tenders has, in a great measure, arisen from the very irregular value of State bank currency that existed before the legal tenders were issued. The former were more uniform, as they were a tender for all debts, and this, necessarily, gave them superior uniformity. But if the legal tenders are compared to coin, which is the only legitimate standard of value, they are far from having uniformity, and are at this time (Sept. 2, 1868,) more than 30 per cent. below par. Nor is this a regular depreciation, but fluctuates from month to month, and even from day to day; nor can any one estimate the value it may have six months from this.

As before stated, this is the only paper currency that our government has issued since the revolutionary war. It was issued to provide means in part to maintain the government in war against a rebellion that threatened its destruction; it was regarded as a forced loan, and submitted to by the public as necessary to carry the government through the exigency that existed. The notes stated on their face, payable on demand, and on their back, convertible into interest paying bonds. The general expectation was, that in one of these ways they would be withdrawn soon after the successful termination of hostilities. Like all paper currency, they were based on credit. Men loyal to the government freely extended confidence in the use of this currency, fully expecting the government fidelity in redemption soon after the war closed. As before observed, a step was taken in that direction, and a small portion were redeemed, when the process was arrested and we are left in the sea of conjecture as to when this shall be resumed. But, it is said, this is a good currency, though 30 per

cent. below the recognized standard, with fluctuations that must ever attend an irredeemable currency, unhinging all transactions of business. It even vitiates the National bank currency, as that may be redeemed by the legal tenders. I have failed to see any good reason given why this should be regarded a good currency. No paper currency can be regarded good that is not convertible into coin at the demand of the holder. This the government does not pretend to do, and the only value there is in the currency is the credit that is given on the faith that it will be paid some day, and, in the meantime, it has fluctuations up and down, as the day of redemption appears more or less remote. But, it is said, it has the credit of the government, and that is better than any bank credit. But, if the government do not pay, how long can this credit last? Shall we always live on fiction? So far as the government has credit I have shown that the National banks have that credit for their circulation, and beyond this have their own funds and credit to secure their circulation, and are bound to redeem on demand. The banks cannot put off this duty, and when the government retire their legal tenders, the banks must redeem in coin. I therefore regard it as a delusion that government currency is superior as a circulating medium to the National bank currency.

A circulating medium that is a tender for all debts and balances should have intrinsic value in itself, and this no representative can actually possess. The paper currency is merely a promise to pay this intrinsic value resting on its credit. Credit may be regarded, and may actually be as good as coin, but this is not actually certain. The government credit rests on its resources and on the degree of civilization that may exist, and this is measured by the intelligence and virtue of its ruling power. With all our boasted confidence we find men in high places ready to apply the wedge of repudiation, and when once the wedge is entered no one can say how soon it will be driven home. This should make us cautious how we commit the whole business of the country to a medium of uncertain and consequently fluctuating value. While a circulating medium is necessary to give efficiency, we should not forget that industry and frugality is the basis of prosperity, and this is best promoted by a system in exchanges that secures the greatest regularity. This will call into action the best personal activities—the true basis of national wealth. There is no way of legislating ourselves into wealth, except to give protection to every man in his industry and enterprise, and leave him to his own judgment as to the labor he will engage in. No legislation will produce a good crop of corn without tillage, nor can it make a sound circulating medium of that which has no intrinsic value.

Second proposition, namely: "That the government should have the benefit of the circulation as so far a means of reducing the interest on the public debt."

The idea, no doubt, rests on the impression that a benefit accrues from circulation. If it could be maintained without redemption this would be true; but as no paper currency can be regarded as a proper medium of exchange that is not convertible into coin, it follows that if the government make the issue they should be prepared at convenient places to convert it into coin. I do not regard it worth while to show that in such a process the expense and loss would be greater than the gain by circulation. It would manifestly be a business the government should not undertake. It has been shown that the government receives from the banks over one per cent. on this circulation, and this may be regarded clear gain to the government, and much more than it could make by any attempt to keep up a convertible currency. With all the high regards held for government currency, and the obligation imposed on all individuals to accept it as a tender for debts, the government now finds it necessary to use coin for payment of interest on its own debt, and refuses to receive these legal tender notes it has promised to pay on demand in payment of import duties, which constitutes about half their receipts and expenditures. This is a manifest discredit of their own promises. Certainly no maxims of commercial exchange have heretofore been rightly established if this sort of currency is held as a proper medium. It is, moreover, destitute of any proper regulator. It opens the widest door for speculation—concentrates business into few hands, and tends to secure fluctuations, thereby promoting monopolies that are injurious and demoralizing on society. This cannot be done with a convertible currency. The banks must keep in view the power of redemption and watch carefully their circulation, and will not allow expansion beyond the legitimate wants of business. If they fail in this their circulation goes to the pledged securities for conversion and redemption.

The government has secured to itself, by sundry taxes, as I

have shown, all the benefits the currency is probably worth, but if it appear the banks can bear a larger tax the government may tax them further. This the government receive without any of the expense that would be required of them to make the currency convertible.

It certainly cannot be maintained that the currency of the country, as issued by the government, and which they do not pretend to pay nor convert into interest bearing bonds, and which they will not receive in payment of more than half the taxes, (import duties,) is a proper medium for the transactions of commerce.

In regard to the third proposition, namely: "That there is no more circulation than is required for the business convenience of the country."

It is not an easy matter to determine how much currency may be conveniently used. The large transactions of commerce are mostly settled by checks or drafts. Circulating money is a medium used for convenience in the numerous small transactions of business, and as a portable means of providing for incidental payments. For these a convertible paper currency is regarded a convience. In what way are we to determine how much currency is necessary for this purpose? If we keep in view the cardinal principle that paper is a representative of intrinsic value, and to be converted on demand of the holder, it will, if left free, be fully regulated by the laws of demand and supply. The banks will put out as large an issue as will supply the demand. It cannot be uniform; it will fluctuate. At times the demand will be comparatively large or small. When the banks have more out than is wanted, it will return to them, and, as demand enlarges, it will go out. At times the banks will have nearly all their currency out, as when large amounts of produce is to be bought, and as this demand declines a large portion will flow back into their vaults.

The privilege of banking should be free and the circulation should be made secure. The government having the principal benefit in taxing so far as the circulation is concerned, taking care to leave so much of benefit to the banks as will be an inducement to provide the currency, there need be no question as to the amount of currency, as it will be regulated by the laws of trade.

We have now, of bank currency, three hundred millions, and about three hundred and fifty millions of government currency. I see no objection to increase the bank currency and decrease the

government currency; but I do not believe the bank currency would be accepted for the whole six hundred and fifty millions.—In my opinion that amount could not be maintained as a convertible currency. At the present we have no criterion, for the reason there is no redemption. It may be the country would take four, and possibly five hundred millions.

My proposition is, first, that Congress remove the restriction and allow circulation free to all who comply with the bank act.—Second, that as the new circulation is put out beyond the present three hundred millions, the Treasurer of the United States retain and under proper form destroy the same amount of legal tender notes. When the new issue amounts to ten or a hundred millions it would be in place of an equal amount of legal tenders.—This would soon show what amount of circulation was necessary, and would be all the provision the government should make for currency. If the country need the whole of the present amount of currency then it will soon be issued by the banks, and the government currency retired as stated. But the banks will not be so ambitious for currency as the day approaches when it must be convertible into coin, instead as now into a currency depressed thirty per cent. below coin value. Every new bank of issue will retire legal tenders, and this will increase the value of tenders, and so on until the tenders will be equal to coin. This result reached and we have a currency convertible into coin. If we could suppose banks would increase their circulation at the rate of a hundred millions a year on this basis, we should soon come to a normal standard of value. It, however, requires no great degree of astuteness to see that the banks would be cautious of any measure that increased the value of their medium for redemption, and therefore, there is no hope of reaching the desired result with the promptness that the public interest requires. Other measures must be taken to bring us to the standard of value in reasonable time. After establishing the above proposition, Congress should provide that the Treasurer retain and cancel, as provided, to meet the new issue, and so much more as would make the withdrawal not less than six millions per month. This would be more than six millions if there should be more than six millions of new issue per month. If we really need as much circulation as we now have we should then have it by the free privilege of bank issues; and if we do not need it we have a certain process of doing away

with what is mere inflation. If the full amount of present currency is not a real want and will not be fully issued by the banks, then the process of a stipulated amount per month would give us a certain basis that in five years would retire all the legal tenders, and leave a convertible currency. Some will object to this as being too slow, but we must compromise with various views and interests, and I see no better way to regain a coin standard and establish a sound, convertible paper currency. In looking forward every man may have time to prepare himself under this gradual process to meet a coin standard in all his transactions.

As an additional measure Congress should legalize coin contracts. So long as the Government insist in part on coin payments, and contract to pay coin, I see no valid ground for their refusing individuals the same privilege.

It is urged we must provide coin before attempting coin payments. No great amount of coin beyond what we now use would be required, and this would come by the laws of trade as fast as we may need. We have only the simple duty of withdrawing the inflation of our present volume by a steady and sensible progress, and the coin will come as fast as we need it. We must come to this and it will not be made easier by delay. Let us take hold of it like men, and put our industry on a firm basis. Settle our basis on a firm foundation and not rest it on the changing sands of inflation, which only give an unstable support.

NATIONAL DEBT.

No. 6.

Our National debt has attained such importance that no apology is needed for its discussion. We have not before had any such experience of National debt, and it requires to be discussed in the most dispassionate manner. Though the debt is large in amount, I shall show it is not relatively larger than we have had in former days.

National, as well as other debts, arise from present wants beyond the cash resources at command. They are contracted for payment at a future time. The facilities for such contracts depend on the resources that may be pledged for payment. In the case of the government this depends on the resources of the government, and the credit that may exist, that these resources will be faithfully applied. Individual contracts may be enforced by legal process, but this cannot be done against the government. Whatever, therefore, be the resources of the government, the debt must be a debt of honor. Disgrace and inability to make future contracts is the only penalty the government may fear.

It has been the practice of most civilized governments, while maintaining expensive wars, to provide in part for their means by contracting debts. Our government has contracted more or less of debt in every war in which we have been engaged. But in all wars previous to the late rebellion the debt has been small in amount as compared with our present debt. If, however, we consider the difference in our resources, the disparity will disappear. Let us look at this a moment. In the war of 1812 we had no railways or canals of any account; we now have from thirty-five to forty thousand miles of these improvements to facilitate our intercourse. These have increased the value of real estate in the country not less than three thousand millions of dollars. In addition they have given a vast increase to the productive industry of the country. The production of minerals, oils, gold, iron and coal, has added largely to the resources of the country. A great increase in the amount of production is made by the use of the mechanical power of water and steam, with numerous inventions for saving manual labor. The evidence is on all sides that we have greatly increased in national wealth. This is evidenced by the large amount of taxes that were paid during the war; and since the war we have paid more than we would have supposed ten years ago we could pay. And yet there is no evidence in the habits of our people that taxes are oppressive. We see no abatement in the style of living, but everywhere as much demonstration of ample means as were ever seen in this country. This, no doubt, is justly to be attributed to actual increase of wealth, and superior means of production, as above noticed. Our debt after the war of 1812 was, at least, as heavy to carry as our present debt is—reference being had to our present superior condition. We did not think of repudiation then, and there is no better reason now. At that time the Democratic party, in full power, made no proposition to repudiate nor to evade the necessary taxes to provide for honest pay-

ment. Nor did any other party. Regarding our present condition we have no excuse for throwing discredit on our national credit.

Under circumstances of ample resources it is humiliating that some of our public men regard our people as standing so low on the scale of civilization, as to propose that we repudiate our just debts. There is rarely a wrong that has not some excuse. In this case it is alleged that payment should be made in paper currency, that this is the lawful money of the country and the public creditor should be satisfied with such money as others are compelled to receive. That the bond provides for lawful money, and only the interest is to be paid in coin. In the first place it is to be remarked, the bond is in all respects drawn as bonds of the government had been drawn, with an unusual provision for paying interest in coin. The long established lawful money was only coin, and it was generally supposed the coin interest was to guard against any hazard that the government might pay in paper before coin payments were re-established; and as the principal could not be paid until five years, and was not due for twenty years, the general impression was that before it became due coin payment would be established, and only coin, or its equivalent, would be used in any payments. But this view of the case did not so satisfy contractors for the bonds as to induce their acceptance without more specific assurance. This was given by the Secretary of the Treasury, and the bonds were taken. To this it is replied the Secretary had no authority; but he could not get the money without, and Congress knowing this fact took no action to disapprove, and were fully committed to their agent's construction.—The general impression of the public was, that the coin interest was provided to bridge over the suspension of coin payments, and that this would come before any portion of the principal would be payable and long before it would be due; and when the question was raised, after the close of the war, in the newspapers, as to whether the bonds were to be paid in coin, it was regarded as a question already settled, and very few supposed the government intended any other payment. But even then it was not regarded of much importance, for it was generally supposed we should have specie payments before any considerable portion of the debt would fall under the five years' option, and it would be settled, as all other transactions, in coin or its equivalent.

The more recent proposition of paying the debt in government currency is merely a proposition of repudiation. It would certainly be a very useless formality for a man holding a bond that provided for the payment of interest, to exchange it for one paying no interest. Here is a pretense of keeping up the idea of paying a debt by giving a new promise without interest for one that requires interest. Why not just as well keep the bond until the government redeem their currency in coin, and then the promise will be of value. The government currency is a promise to pay on demand, but not the least attention is paid to this promise—now more than three years after the close of active hostilities.—Some people seem to regard the government currency as real money and having intrinsic value. Where is the value? Who can find it? All rests in the expectation the government will some day pay, though thus far very little assurance has been given by conversion. Though the government have the option after five years, the bond is not due until twenty years, and there is fourteen to twenty years before the government is under obligation to pay. If the government give a new promise to pay the principal, they must some day pay this principal on the new promise, unless they make a total repudiation. This measure, therefore, is a direct repudiation of interest, the principal resting on a new promise.—The proposed measure would accomplish at once the repudiation of the interest, and this done, what confidence can there be that the last promise will not also be repudiated in due time. We gain nothing in this unless we intend to repudiate, and, aside from the sacrifice of honor, we should deluge the country with worthless currency, that in itself would be far more disastrous to individual business than the pecuniary interest of the debt would be worth.

Another proposition has been submitted, of a humiliating character, that holders of six per cent. bonds should give them for five per cent. bonds, having longer time to run. This would be very well if it were left to the option of the holder, but it is followed by a threat, that if he does not do this he shall be paid in irredeemable currency. This is simply another method of entering the wedge of repudiation.

It has been urged that as the government received pay for bonds in a depreciated paper, it is morally right to pay in the same paper. This would involve a good deal of calculation to find what a bond was worth, for, no doubt, the paper received at different

times had a different value. In the early issues there was but a small difference—in the later much more. But the currency the government received was exactly such as they compelled individuals to receive in payment of debts. No doubt this worked unjustly in many cases, but to individuals for the most part, this would work pro and con. In the war of 1812 the government sold their securities for fifty and sixty cents on the dollar, and took depreciated paper in payment. There was no specie payments in those days. The English government, during the war with Napoleon, accepted fifty-five per cent. for their bonds. Did the English, after the war closed, pretend this as a reason they should not pay the bonds in full? Or did the United States offer such plea or any other as a reason for not paying their bonds in full after the war of 1812? The financial distress of that time was far greater than at the close of the rebellion. The Democratic party were in power then; but no measure of repudiation was then offered. In those days we cut and raked our grass and grain by hand. We sowed our flax, and by hand labor dressed, spun and wove it for our trowsers and shirts. Our wool we spun and wove in the same way, and dyed it with butternut bark for our coats and pants.—Our carpets we made with strips of old cloth sewed together, and wove with coarse yarn by hand looms. From this place we carried our produce by teams, on common roads, one hundred and ten miles to tide water. In the same way we brought our goods. We carried by team about thirty bushels of wheat, and our provision and provender with us, paying on the way six pence for lodging, two shillings (25 cents) for hay and stabling for team at night, and occasionally a glass of cider to pay for the fire we used to warm by the way. I drove my father's team to transport a load (thirty bushels of wheat,) for thirty-seven and a half cents per bushel, requiring seven days, and receiving eleven and a quarter (11 1-4) dollars for team and all expenses. With present facilities the same wheat is transported, at less expense, more than one thousand miles. I notice these things merely to call attention to the vast increase in the means of production. If, under the circumstances I have named, we did not shrink from meeting our liabilities, but, like honest men, paid them in full, why do we hesitate now? Have we degenerated in honesty? No, I do not admit this; but certainly the Democratic party have degenerated—for in those old times to which I have alluded it was one of their

brilliant spots to meet, honestly, every financial liability. As late as the year 1857, when specie payment was suspended and bank currency depreciated, the Comptroller of the State of New York (the Hon. A. C. Flagg,) paid the interest on the State debt in coin. In this I do not wish to appear invidious, and I therefore mention the State of Massachusetts as opposite to the Democrats in politics, and has, I believe, always met her engagements with equal fidelity.

One other scheme I will mention that is proposed to make something of repudiation in the way of taxes. Some municipalities have, in former times, made efforts in this direction, but the courts so speedily arrested all such hopes, that it has not been again agitated until recently. The first point in this, I notice, is an effort to create class prejudices. The bondholders are assumed to be rich, and should divide, at least. It is well known a large amount of government bonds are held by savings institutions, and many private holders hold but small amounts, and many of these in trust for widows and minor children. But how does this objection arise in a country that professes to be free? We claim that our government has no classes, that its protection is complete and uniform over all—none so strong as to be tolerated in oppression—none so weak as to fail of its protection. We hold to the inalieniable right of all men to pursue, under equal laws, the labor and enterprise they choose as a means of their own happiness. In this right some spend their earnings as fast as they receive them. Of course the government can get no money from these. Others that acquire money have not faith that payment will be made; they think the government may be overthrown, and perhaps they desire it should be. Another class believe they can do better in trade or in the purchase of land, which is likely to be low when the government is in distress for money, and will probably rise after the emergency is past, and they prefer making money in this way rather than to *risque* the government. But the government must have money, and it is very clear they must get it from those who have it and are willing to lend it on the terms offered. No exclusive privilege is offered in this; the government calls upon all, *and all that desire can make contracts.* If the bonds are offered free of taxes, then every one that is willing to take a bond can do so, and be free of tax on his bond. Now, what ground of complaint has the man that preferred to use his

money in some other way, as for land, &c., that he regarded more safe or more profitable, to complain of the man that took the bond and all its risks, while the land of the former has probably doubled in value? The government want money; they offer as terms a certain rate of interest, and payment of principal at a certain date, and that the property in bond shall not be taxed.—When these terms are accepted it is a contract, and the government has no more right to tax them than to refuse interest or principal. To tax is so far to repudiate the contract.

Let us see the gist of this question. Government wants money—they offer certain terms; the lender says if the bonds are not taxed I will take them at four per cent. The government very naturally and very properly say, it is best to dispense with all the expense and trouble of imposing and collecting this one per cent. by taxes, and therefore accept the terms of lower interest without tax. It is very clear in this transaction the bondholder pays his tax in the abatement of interest, and while the bondholder is neither injured nor benefited, the government saves the raising of so much money by taxation. No man can be so dull as not to see the bondholder pays his tax in the contract, and that it is, in every respect, the most simple and convenient for the government.

I notice a proposition of the Secretary of the Treasury to issue bonds at five per cent., subject to a deduction of one per cent., to be paid over to the State government, as a compromise for municipal taxation. This is a proposition to raise one per cent. on our debt to be paid over as above stated. Why should the government assume to raise money by taxes for the support of municipalities. Can they perform this function more economically than the municipalities themselves? In either case the people must pay. So far as regards the one per cent. there is no possible way of providing for it so simply and so economically as by the usual method in the bond. It was a surprise to learn that this proposition of raising and distributing this one per cent. was made by the Secretary of the Treasury. It has been excused as a compromise to the question of taxation. Are we, as a people, so stupid we cannot see that we get no relief in this from taxation? But it is said the ignorant are deluded and suppose the bondholder goes free of taxes. Is it the way to inform the ignorant by paying to their ignorance? But, as a principle of our institu-

tions, it is our duty to inform the ignorant by placing the truth clearly before them, and thus fit them to be the support of freedom and the rights of man. Doubtless, there are many ignorant men, but as a mass I do not admit that we are incapable of learning so simple a question as this.

I have stated that our wealth and productive industry were increased over that existing at the time of the war of 1812–15, to at least equal our present debt, as compared with our liabilities at that time, and I now submit facts to show this:—

The receipts of the government from internal revenue and direct taxes for the years after the respective wars closed, and for the following years, were as follows:—

From January 1st, 1815, to January 1st, 1816,.............	$6,840,732	
From January 1st, 1816, to January 1st, 1817, ...	9,378,343	
For the two years,.........		$16,219,075
From July 1st, 1865, to July 1st, 1866,......................	$310,906,984	
From July 1st, 1866, to July 1st, 1867,..........................	265,920,474	
For the two years,........		$576,827,458

Taking the sum of the two periods, the latter exceeds the former thirty-five (35) times. The population of the latter period was about four times that of the former, and should have given four times the income, or $65,876,300, but the latter period gave nearly nine (9) times on the amount due on increased population. This shows our ability thirty-five (35) times greater in the aggregate, and nine (9) times greater than the proportion of our population.

The debt after the war of 1812–15 was about one hundred and thirty millions, and by the resources as above, after the rebellion, we were able to carry, with the same ease, a debt of four thousand and five hundred millions—near double our present debt.

It cannot be said the currency in which the revenue was collected in 1815 and 1816 was materially better or more satisfactory than at the period after the late rebellion.

Our present debt is large, but I have shown our resources are ample, and if we fail to pay it can only be from dishonesty. We paid off the debt of 1817 in about twenty years; if we choose we

can pay the present debt in the same time with about half the effort we made then. With ample means to pay, shall we bring a reproach on the honor of our free government (the hope of man) and stand before the civilized world as a nation of cheats? The threat is a disgrace to us, but we shall do no such thing. We shall pay like men and stand before the world as those that know their own rights and duties, and will respect the rights of others.

Our public debt is in a good condition to manage. The old six per cents. have but a few years to run—the 5-20 6 per cents. become payable at the option of the government in five years after issue. The 10-40 5 per cents. run only ten years before they are payable. If we now pay too high interest we can reduce this as soon as we show the world our pledge of honor is reliable—that as a people we have not degenerated in a moral sense since 1815. The first thing for us to do to establish this is to meet our engagements according to contract, and stop the mouths of all who would dishonor us. If we had no respect for our national honor, we could not even afford the individual sacrifice of our commercial interests that would follow national disgrace.

To simplify the national finances, measures should be adopted to put the debt in a uniform shape by consolidating all classes of bonds into one class. To do this we must determine the rate of interest it will be necessary to pay. This will depend on the length of time the bonds are to run. In order to get a low interest the bonds should run fifty years. An objection is made to this that we shall be ready to pay before the bond is due. The government can, of course, purchase the bonds in the market at any time they have funds to pay. Now, if the rate of interest is such that the bonds will not rise, ordinarily, much if any above par, then the government can purchase with little or no sacrifice. The English three (3) per cents. are often below 90 per cent., and rarely reach par. These are irredeemable, that is, the government can only obtain them by purchase. If we make bonds to run fifty years, they would at times be above par, but not very much for the next twenty years, and, within this time, we could redeem at favorable times in the market, without much if any loss. Forty years since the State of New York obtained funds on a twenty year loan, at 5 per cent., with a premium of 15 per cent. This was about equal a loan at 4 per cent. for fifty years. No doubt the government will be able to negotiate in a short time a loan at 4 per cent. on a bond of fifty years. This could be offered to the creditor at his option. In view of this bond, the holder of six and of five per cent. bonds, as they neared maturity, would consider the object of conversion; but, if they did not the government could obtain funds on the four per cent. bonds, and take up such as may not be converted as fast as they become payable. The first thing for the government to do is to establish their credit; this may easily be done, and then we shall obtain all the funds we need at four per cent interest. It is very probable that before fifty years we may obtain funds at less than four cent., and that the bonds of this class may be at considerable premium before they fall due; still, I think we shall more promptly consolidate with four per cent. than at a lower rate, and that the four per cent. will not rise so much above par within the next thirty years as to cause a loss of premium that will be equal the saving in interest by early consolidation. The market value of bonds will fluctuate with the money market, and rarely any year will pass but there will be opportunity for the government to purchase at or near par.

I do not think we should attempt to reduce the debt rapidly, though many will disagree with me in this opinion. Every year increases our ability to meet the obligation of this debt, and it seems reasonable to spread the burden over considerable time.— But, as a people, we have been rather restless under debt, and there are some important considerations for removing this burden as early as it may be done, as it sooner relieves us from taxes, and what is more essential, better prepares us for any future necessity that may require the use of our credit.

To manage our debt most easily we should do just what a discreet individual would do—avoid all expenses that may be deferred and economize all that are necessary. Simplify and render as efficient as possible our system of taxation, taking care to secure as much equity as practicable, with a faithful and discreet administration of all revenue laws. In view of the fact that in about three years after active hostilities of the war of the rebellion ceased, we paid of debt and liabilities of the war, one-fourth of the total; having at the same time to pay interest and unusual expenses that necessarily arose out of a civil war, greatly deranging the course of public affairs, it is clear that with a restoration of actual peace our war debt should not prove a serious burden to the country,

and least of all, affording justification for a *pretense* for any degree of repudiation.

Have the advocates of repudiation considered the consequences that would naturally result from this measure? Why stop at the public debt? Is there not the same reason to repudiate individual debt? Is not one just as dishonest as the other? However thoughtless they may have been, they have proposed and advocated a measure that, in its legitimate working, must break up the foundations of the social fabric, and inaugurate confusion and anarchy. As before said, we shall do neither. We are not yet low enough in the scale of barbarism to commit political and social suicide.

NOTE.—These letters were written in September, 1868.

END OF
TITLE